2014

MAJOR DIMENSIONS OF INEQUALITIES IN INDIA: WAGE

The discourse on the Millennium Development Goals (MDGs) around the progress in human development in the last two decades recognised the growing inequalities in income that impede the fulfillment of human rights and wellbeing. There has been a quantum jump in global inequality; the total income of the world's top 1.75 percent earners exceed those of the bottom 77 percent[1]. Studies show that inequality has increased both within and between countries, which acts as a barrier to individual development and sustained economic growth. This is especially true for the developing regions, where for a protracted period, policy measures have not been able to adequately tackle this problem.

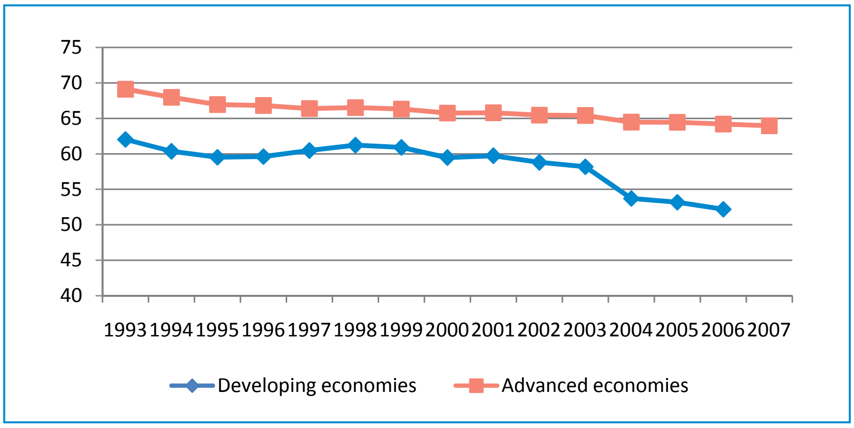
GLOBAL WAGE INEQUALITY

The movement of factor incomes in the national income, i.e. the distribution between wages and salaries on the one hand and different forms of surplus[2] on the other, is considered to be the main driver of economic inequality. The movement of factor incomes is closely linked to the growth rates of GDP, employment and wages. When GDP grows faster than total labour compensation, the share of labour income (also called the *wage share*) falls relative to the capital income share (also called the *share of profit*). The Global Wage Report 2012-13 released by the International Labour Organisation (ILO) shows that there is a long-term trend of a falling share of labour compensation and a rising share of profits in many countries across the world. The report also reveals that in developed economies the average share of labour income in national income dropped from 69 percent in the early 1990s to 64 percent in the years just before the global financial crisis. It then rose somewhat but declined again after 2009. In a group of 16 developing and emerging countries, it decreased from 62 percent of GDP in the early 1990s to 52 percent just before the crisis (Figure 1).

[1] Milanovic, Branko, 2011,"Global Inequality Recalculated and Updated: The effect of new PPP estimates on global inequality and 2005 estimates", Journal of Economic Inequality, November 16, 2010.

[2] Surplus include profits, rents and interest.

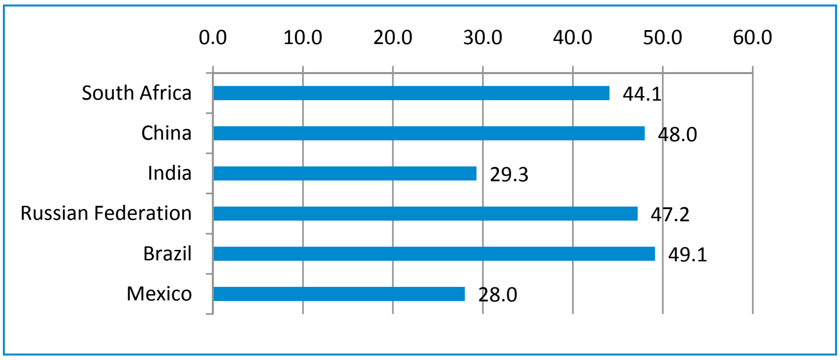
Figure 1: Adjusted Labour Income Shares in Developing and Emerging Economies and Advanced Economies[3] (in %)



Source: Reproduced from Global Wage Report, 2012-13, ILO, Fig. 31 & 32

Similar trends are visible even among the BRICSAM countries[4]. Figure 2a shows that for most of the emerging economies in the global South, the share of wages in gross value added is lower than the developing economy average of 52 percent mentioned in Figure 1. Among them, India fares the worst. The Government of India estimates too reveal that the share of wages in national income fell from 40 per cent at the start of the 1990s to only 29 per cent by 2008-09.

Figure 2a: Share of Wages in Value Added in BRICSAM Countries, 2008-09 (in %)



Source: Global Wage Database, ILO

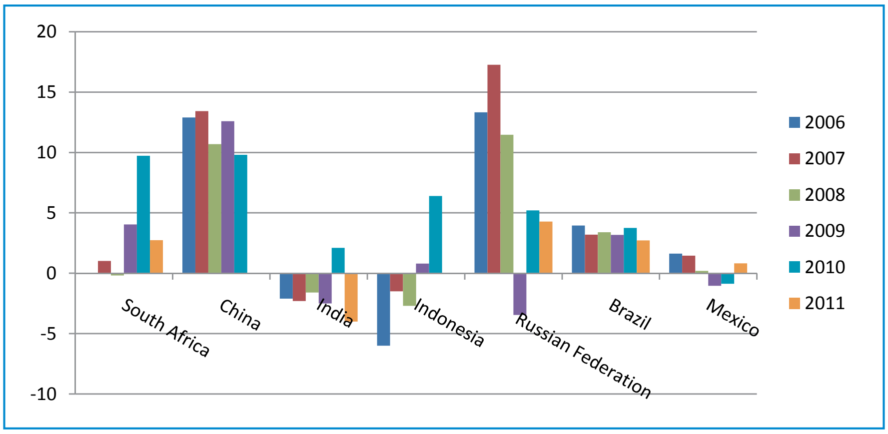
According to the Trade and Development Report, 2012, the growth of real wages in India between 2001 and 2005 was a mere 2.6 percent annually. In 2006 and 2007, real wages grew at abysmal rates of 0.4 percent and -0.6 percent respectively, far lower

[3] Developing Economies: Unweighted average share of wages of 16 developing nations (Argentina, Brazil, Chile, China, Costa Rica, Kenya, Mexico, Namibia, Oman, Panama, Peru, Republic of Korea, Russia, South Africa, Thailand and Turkey);
Advanced Economies: Unweighted average share of wages of 16 high-income OECD countries (Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, The Netherlands, Spain, Sweden, The United Kingdom and The United States excluding Korea).

[4] BRICSAM are a group of emerging economies in the global South comprising Brazil, Russia, India, China, South Africa and Mexico. Indonesia is also considered among the emerging economies.

than the 6.5 percent GDP growth rate. Once again, a cross country comparison across the emerging economies reveals that India fares worse compared to its counterparts in terms of growth of real wages (Figure 2b).

Figure 2b: Growth of Real Wages in BRICSAM and Indonesia (in %)



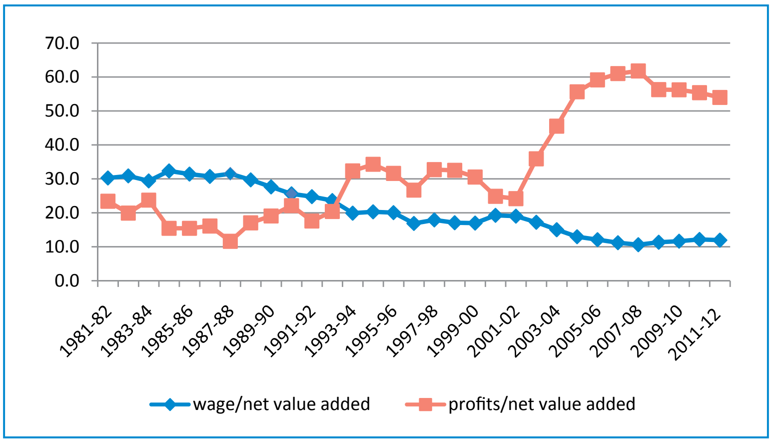
Source: Global Wage Database, ILO, various years

THE INDIAN CONTEXT

Given such discrepancy in growth of real wages compared to GDP growth rates in India, it is evident that large sections of the population have not been able to reap the benefits of high growth. Estimates of inequality in India are based on the consumption data for households, collected by the Government of India (GOI) every five years through the National Sample Surveys (NSS). Due to the lack of availability of income data, estimates of income distribution is obtained from other sources such as the survey done by National Council of Advanced Economic Research (NCAER) and other micro-studies. One of the studies based on the NCAER income data revealed high income inequality, with a Gini coefficient of 0.54, almost similar to that of Brazil (Sonalde B. Desai, Amaresh Dubey, Brij Lal Joshi and Mitali Sen, "*Human Development in India*" Oxford University Press, 2010). Among the other sources of estimates of income inequality, a study based on village surveys conducted by the Foundation for Agrarian Studies shows even higher Gini coefficients of an average 0.645 across households and 0.595 across persons within villages (Madhura Swaminathan and Vikas Rawal "*Is India Really a Country of Low Income-Inequality? Observations from Eight Villages*", Review of Agrarian Studies, 2011).

As mentioned above, the distribution of income is intrinsically linked to the growth of wages relative to the growth of total income. The major sources of data on wage growth in India are the Annual Survey of Industries (ASI) by the Central Statistics Office (CSO), GOI, the real wage index published by the Labour Bureau, GOI and the NSSO, GOI. Major data sources indicate stagnation in the growth of real wages in the recent years. As a result the share of wages to net value added in the organised factory sector registered a decline from 65 percent to 51 percent in the last few years (Figure 3).

Figure 3: Trends in Wages and Profits to Net Value Added in the Organised Factory Sector in India (in %)



Source: Calculated from estimates provided by NAS, NSSO and ASI, GOI, various years

INEQUALITY IN EARNINGS ACROSS POPULATION CLASSES: BRICS

In addition to the share of labour income declining over time across the BRICS countries, the distribution of wages too has become more unequal across individuals. The distance between the top 10 percent and the bottom 10 percent of wage earners has increased in 23 out of 31 countries since 1995–2007 (ILO, 2008a)[5]. The proportion of those with low pay[6] has also increased in 25 out of 37 countries (ILO, 2010a)[7].

Table 1a: Ratio of the 90th and 10th Percentile of Wages in Few Emerging Economies

	1995	2001	2005	2006	2007
INDONESIA	16.8	12.5	12.7	13.4	15.5
BRAZIL	11.3	10.4	9.2	9.4	8.7
MEXICO	6.7	6.2	6.2	5.8	5.8

Source: Global Wage database, ILO

Table 1b: Proportion of Population with Low Earnings

	2002	2007
SOUTH AFRICA	34.7*	32.4
CHINA	66.5	42.6
INDONESIA	28.8	28.7
BRAZIL	24.4	21.9
MEXICO	19.4	21.3

Source: Ibid.
*South Africa figure is for 2004.

5 Global Wage Report 2008/09: Minimum Wages and Collective Bargaining – Towards Policy Coherence, International Labour Office (ILO), (Geneva).
6 Low pay is defined as less than two-thirds of the median wage.
7 Global Wage Report 2010/11: Wage Policies in Times of Crisis, International Labour Office (ILO), (Geneva).

Table 1a and 1b show figures for some of the BRICS countries, for which earnings/ income data are available. Table 1a shows that while, for certain countries, the ratio of wage earnings of the top 10 percent to that of the bottom 10 percent has declined somewhat since 1995, yet it continues to remain substantial. Furthermore, barring China, the proportion of population with low earnings has remained the same over the period considered, despite these economies registering high rates of growth (Table 1b).

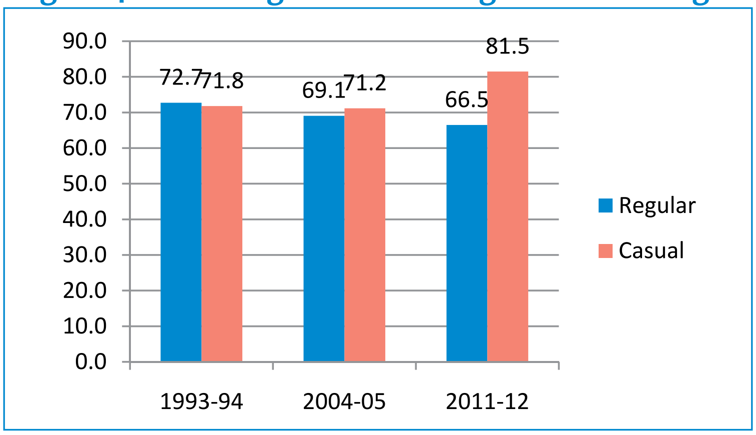
INEQUALITY IN WAGES ACROSS DIFFERENT DIMENSIONS: INDIA

In the Indian context, the lack of availability of income data makes comparisons across wages, as could be made for some of the BRICS countries, difficult. However, data on rural wages are available from five different sources. The five sources of wage data for rural labourers are the Agricultural Wages in India (AWI), Rural Labour Enquiries (RLE), National Sample Surveys (NSS), Cost of Cultivation Studies (CCS), and Wage Rates in Rural India (WRRI). Of these, the NSS wage data and the RLE wage data are from the same source, that is, the quinquennial employment and unemployment surveys conducted by the NSS. Amongst these, only NSSO provides data for urban wage workers. Such information facilitates a thorough understanding of how wage disparities operate in the labour market across different dimensions. In this section three major wage gaps are highlighted; regional, sectoral and gender, based on the estimates of wages provided by the large-scale survey data in India conducted by the NSSO, GOI.

Wage Differences Across Rural and Urban Areas

There exist substantial differences in wages across rural and urban locations. It is manifested across types of occupations as well as types of contract of the worker. In general, rural wages, across occupations, sectors or types of contract, are lower than urban wages (Figure 4). The rural-urban wage gap for those in regular employment, with continuous monthly or weekly source of wages, has increased over the years. On the other hand, for casual workers, who essentially are daily wage earners, the wage gap is much less across locations and has also reduced over time.

Figure 4: Rural Wages as Percentage of Urban Wages

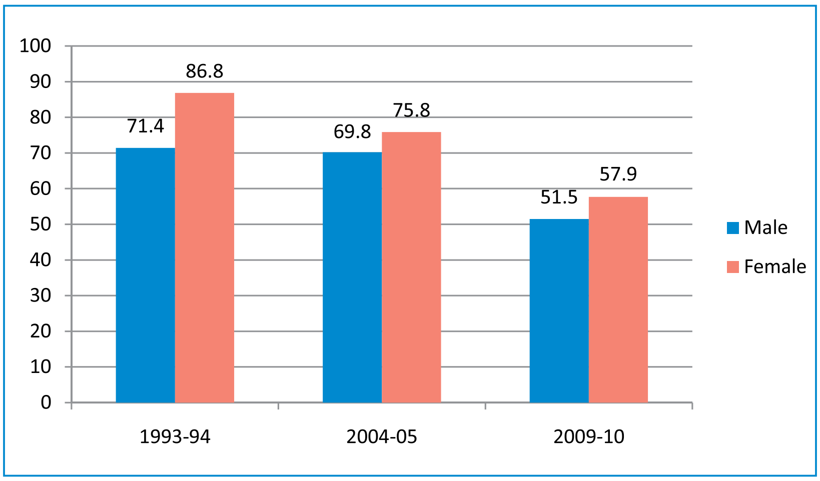


Source: Employment and Unemployment in India, NSSO, GOI, various years

Wage Differences Across Agricultural and Non-Agricultural Sectors

Non-agricultural wages are almost always higher than agricultural wages in both rural and urban areas. This is partly due to the lower rate of return in agriculture and also due to the need for higher levels of skill required in non-agricultural employment. The figure below shows that the gap between agricultural and non-agricultural wages has increased over the years for both male and female workers in the rural areas (Figure 5).

Figure 5: Agricultural Wages as Percentage of Non-agricultural Wages, Rural

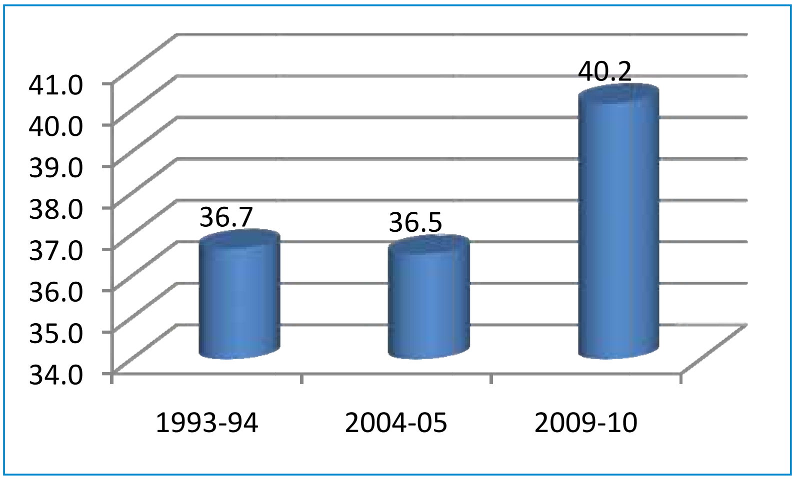


Source: Ibid.

Wage Differences Across Different Types of Contract

Substantial wage differences also exist between different types of contract of wage employment, i.e., between regular and casual employment.

Figure 6: Casual Wages as Percentage of Regular Wages



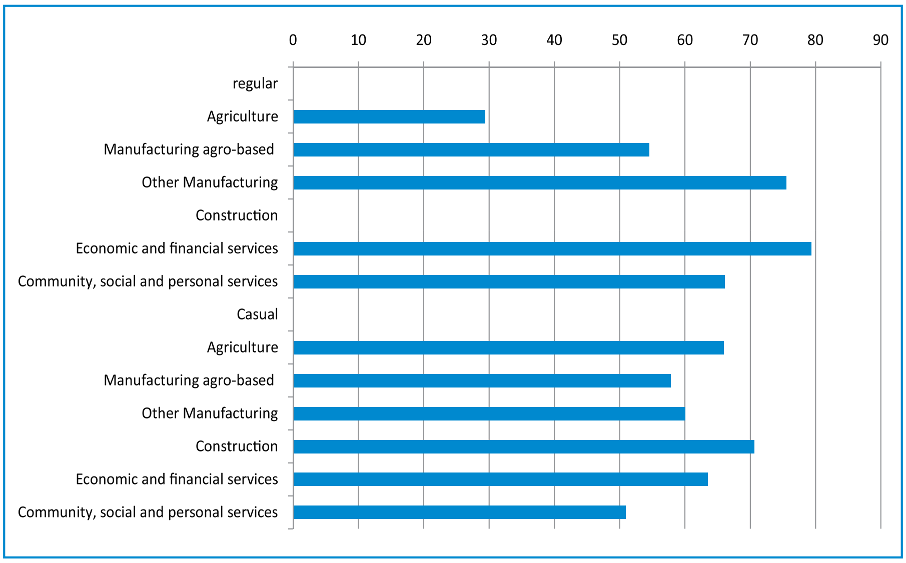
Source: Ibid.

As explained earlier, regular jobs pertain to a secure and continuous source of earnings and hence qualify as better quality jobs. Casual work, which includes daily wage activities, on the other hand, is bereft of any form of wage and non-wage securities and is often low skilled with much lower wages. Regular wages are almost always much higher than the wages for casual work. In any economy, one of the major indicators of inclusive growth pertains to adequate employment opportunities of the first kind and declining proportions of casual work opportunities. In the absence of regular job opportunities, closing the gap in wages for the two types of contract by raising the wages for casual work also augur well for the overall employment scenario. In the case of India, although casual wages relative to regular wages have increased, the gap between the two is still substantial (Figure 6).

Wage Differences Across Gender

As across the rest of the world, in India too, significant difference in wages for male and female workers exists across occupations and locations. On an average, female workers in India earn only about 65 percent of the wages earned by male workers (EUS, NSSO, 2011-12). However, differences in wages occur depending on the sector, nature of occupation and types of contract. Figure 7 below provides the wage differences between male and female workers across sectors and types of contract. The gap in male-female wages is the lowest in regular service activities, where female workers get almost 80 percent of the male wages. However, the gap is higher in casual manufacturing activities where female wages are only approximately 59 percent. It is important to highlight this aspect as sectors which have more employed female workers, such as the casual manufacturing activities, the wage gap is wider and for those activities where the presence of female workers is less, such as regular high skilled economic and financial service sectors, the gap is narrower. What this implies is that with higher levels of education and employability, male-female wage differences tend to decline.

Figure 7: Female Wages as Percentage of Male Wages in India by Sectors, 2009-10



Source: Ibid

Apart from the above dimensions, wage inequality in the private formal sector is higher than that in the informal sector. Given these gaps in wages across these several dimensions, it is evident that closing these gaps by increasing the real wages[8] of low-paid workers, would go a long way in improving wage inequality in India. It could also lead to a rise in the share of wages in the national income, which in turn, would help to reduce the overall inequality. At the same time, it is equally important to improve the rate of growth of real wages, over the next few years, in order to take care of these discrepancies.

The above is an attempt to highlight the various dimensions in which wage inequalities exist in India. Wage inequalities are one of the major reasons behind the existing socio-economic inequalities. It is thus important to understand and bring this issue into the public discourse so as to formulate policies for elimination of inequalities associated with wages.

[8] Real wage refers to nominal wage adjusted for inflation.

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